Commodity Spotlight

USDA Photo

Strong U.S. Soybean Demand Keeps Pace with Record Supply

U.S. farmers planted an estimated 75.2 million acres of soybeans in 2001, surpassing last year's record of 74.5 million. The momentum for increased soybean acreage this year stems largely from changes in relative crop production costs. Expenses for anhydrous ammonia, the most commonly used nitrogen fertilizer for corn, increased sharply last spring. Soybean plants can fix most of their own nitrogen requirements from the atmosphere, so the crop needs comparatively little application of this input. Planting delays for corn in the upper Midwest and favorable marketing loan benefits also added more soybean area.

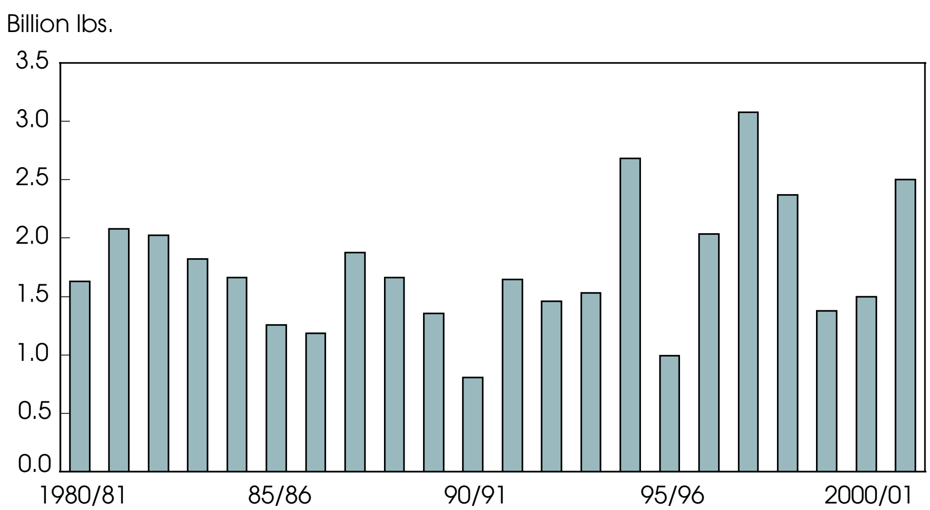
The national average yield for soybeans is forecast at 38.7 bushels per acre. This yield would be a recovery from last year's below-trend yield of 38.1 bushels, when a severe late summer drought hurt yields across the western Corn Belt. U.S. soybean production is forecast at nearly 2.9 billion bushels. A crop this size would exceed last year's record by 97 million bushels.

Despite the large potential harvest, strong soybean demand is warding off even more burdensome surpluses. Carryover stocks are expected to drop from 290 million bushels last year to 250 million bushels this fall. Domestic soybean crushing will be supported in 2001/02 by good prospects for soybean product exports. Soybean processors are expected to crush an all-time high of 1.66 billion bushels in 2001/02, up 25 million from the previous crop year. However, with ample South American soybean stocks left over this fall, 2001/02 U.S. soybean exports are projected to only match the record 2000/01 estimate of 995 million. Robust soybean imports by China and the European Union have continued to support foreign demand for U.S. exports.

Combined with a stronger demand outlook, 2001/02 ending stocks of soybeans are forecast at 300 million bushels. Record U.S. supplies and large foreign stocks (particularly in China and Brazil) are expected to limit price increases. USDA forecasts the 2001/02 average farm price for soybeans at \$4.35-\$5.35 per bushel, compared with \$4.55 in 2000/01. If the forecast were realized, it would be the fourth consecutive year with farm prices below the U.S. soybean loan rate of \$5.26 per bushel. Marketing loan gains and loan deficiency payments (which help U.S. farmers cover the difference between market prices and the loan rate) may total about \$2.5 billion for the 2000 soybean crop but may decline as market prices rise this crop year.

After several years of very low prices, demand growth in the soybean oil market should strengthen prices in the coming year. Very large U.S. stocks weighed on soybean oil prices last season, but much larger foreign imports are expected in 2001/02. Shrinkage of other vegetable oil supplies throughout the world is expected

U.S. Soybean Oil Exports Up Sharply in 2001/02



Marketing years beginning October 1. 2001/02 forecast.

Economic Research Service, USDA

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to swell U.S. soybean oil exports by two-thirds in 2001/02 to 2.5 billion pounds. Domestic disappearance of soybean oil should rise moderately and the large stock carryover would be trimmed somewhat. The season-average price would rise to 16.5-19.5 cents per pound, from 14.25 cents in 2000/01. Soybean oil prices at this level would still be comparatively low, in historical terms.

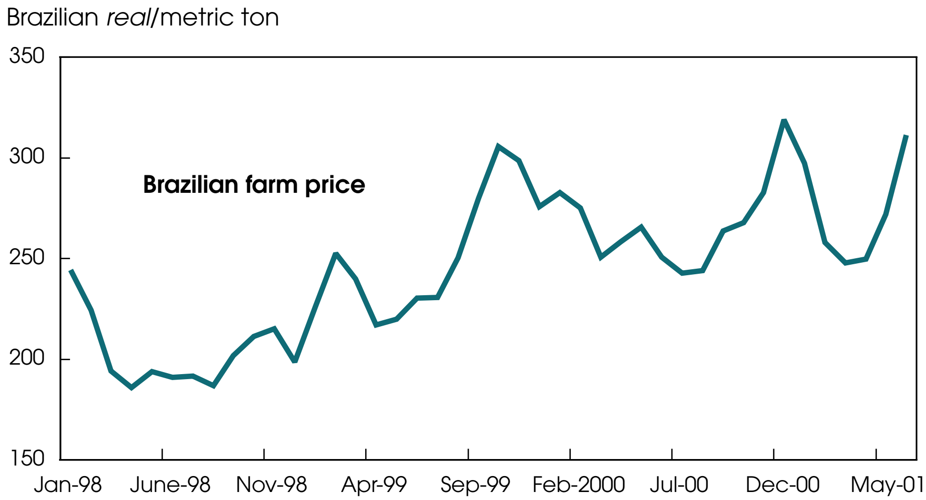
A stronger world market for soybean oil would begin to favor crushing more soybeans for their oil value, which sank near historic lows in 2000/01. The corresponding growth of soybean meal supplies will maintain pressure on the 2001/02 average meal price, which is forecast at $155-$180 per ton, compared with $175 in 2000/01.

An expected recovery in South American soybean crushing will make gains in U.S. meal exports more difficult in 2001/02. However, affordable prices are anticipated to keep U.S. soybean meal exports competitive into next year, slipping only from 7.75 million tons in 2000/01 to 7.6 million tons in 2001/02.

U.S. soybean meal exports were larger last season because Indonesia banned imports from South America temporarily. The ban was imposed because of fear that soybean meal from the region could transmit foot and mouth disease. U.S. soybean meal exports to Indonesia surged more than 0.5 million tons in 2000/01 partly in response to the ban and availability of the U.S. export credit program.

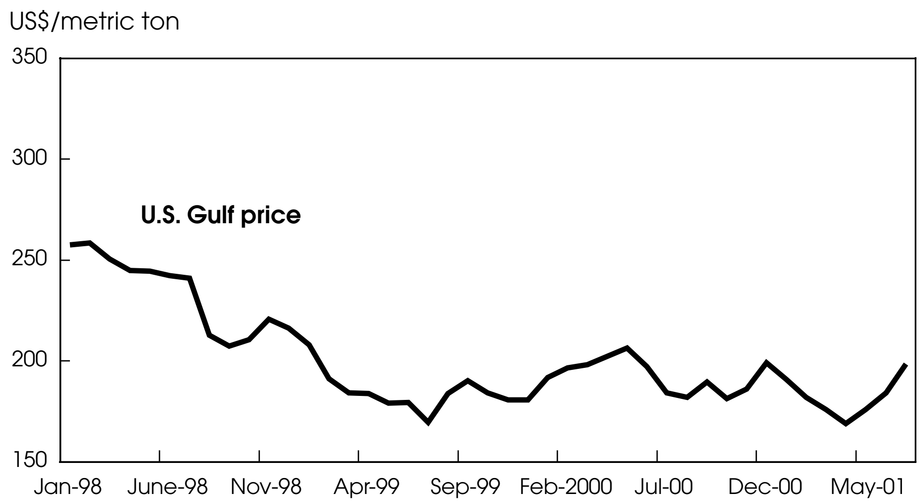
Favorable hog values should promote a steady expansion of domestic soybean meal consumption over the next year. Domestic feed consumption by hogs rose last season partly because an outbreak of foot-and-mouth disease in Europe benefited U.S. pork exports. The profitability of broiler production has also improved and the flock size is gradually expanding. U.S. disappearance of soybean meal is forecast rising nearly 2 percent to 32.1 million short tons in 2001/02.

Brazilian Farm Price for Soybeans Has Been Rising, Due to Currency Devaluation. . .



Source: Getúlio Vargas Foundation (Brazil).

. . .While U.S. Soybean Export Price Has Declined



US$1=2.56 *real* as of August 28, 2001.
Source: Agricultural Marketing Service, USDA.

Economic Research Service, USDA

Foreign Soybean Consumption Remains Brisk

The bumper soybean crops produced in the U.S. and South America have depressed prices, making large purchases quite affordable for the world's major importers.

European Union (EU) consumption of soybean meal increased 3 percent in 2000/01 based on its continued substitution for meat and bone meal, which has been indefinitely banned from all livestock feeds following the fall 2000 BSE outbreak in the region. Prior to the ban, soybean imports had been expected to increase only marginally in 2000/01, but they increased 8 percent following the prohibition. Growth in Eastern Europe soybean meal demand, which is also affected by the loss of meat and bone meal supplies, has been just as strong. EU demand growth for soybean meal is forecast up 4 percent for 2001/02 to 27.8 million metric tons. Tighter domestic oilseed supplies should improve crush margins and slightly favor EU soybean imports, which are forecast up 4 percent to 17.7 million tons. EU soybean meal imports may increase 4 percent to 21.1 million tons.

In China, corn prices were comparatively attractive last spring, which is estimated to have reduced China's 2001 soybean area 7 percent. Rains have also been deficient in the top soybean-producing region. Soybean production by China is forecast to decline to 15 million tons from 15.4 million in 2000.

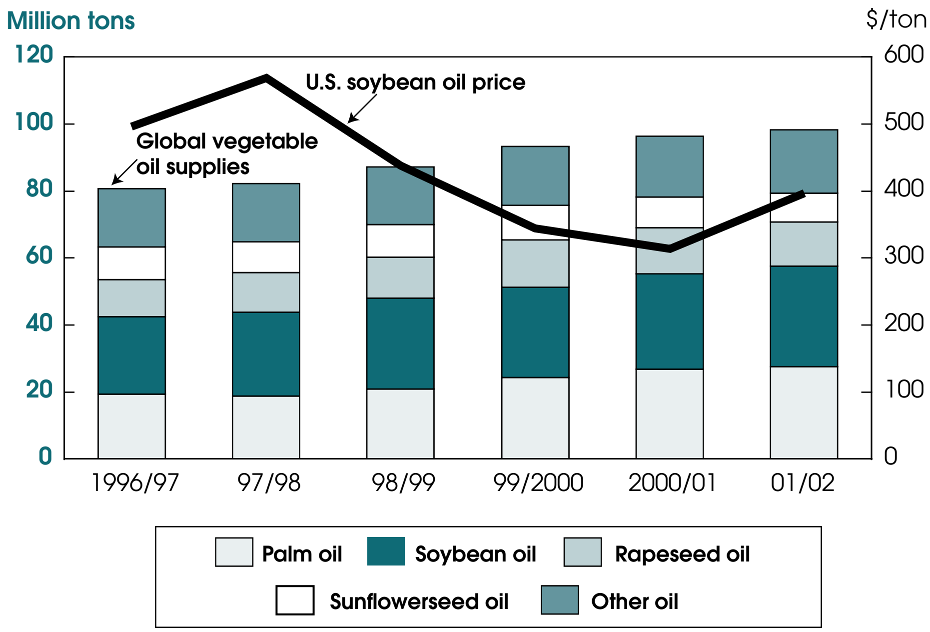
In recent years, China has preferred to import soybeans for crushing rather than to import soybean meal. Soybean imports by China swelled 31 percent in 2000/01 to 13.2 million tons, encouraged by a robust 18-percent increase in soybean meal consumption. The lower expected domestic soybean output would require another increase in China's already massive imports, which are forecast rising to 14.5 million tons in 2001/02. With a comparable expansion of livestock feed use next year, China would account for more than 40 percent of the world's expected growth in soybean meal consumption.

Competition Increases For Soybean Exports

Record area and nearly ideal weather swelled the South American soybean harvest 15 percent last season, while U.S. output increased just 4 percent. In 2001/02, global soybean production is forecast to rise only 3 percent to 176.8 million tons. The U.S. could account for most of the world's projected output gain, although about half of that would add to U.S. soybean stocks. Despite smaller prospective increases in Argentine and Brazilian output, both countries should accrue much of the gains in world soybean and soybean meal trade next season.

For Brazilian farmers, soybeans have been a very good hedge against currency fluctuations. Despite relatively low soybean prices in dollar terms, Brazil's exchange rate (which has depreciated by one-fourth against the dollar this year) is boosting internal soybean prices and expected plantings in 2001. Firmer U.S. prices will also encourage an expanded soybean area, while corn prices in Brazil are not as attractive as they were a year ago because of a bumper crop. Although a repeat of this year's record soybean yields in Brazil is not expected, an 8-percent expansion of area may push next year's harvest to a record 39 million tons.

U.S. Soybean Oil Price to Rebound As Global Vegetable Oil Supplies Level Out



2001/02 forecast.

Economic Research Service, USDA

Larger soybean supplies and an easing of the country's electrical power shortage by next year should spark an upswing in Brazilian crushing. Low reservoir levels are reducing hydroelectric power generation in Brazil this year, so the government has imposed nationwide rationing. Better crush margins would help revive Brazil's soybean meal exports next year. Yet, value-added taxes between Brazilian states are still handicapping domestic processors relative to foreign buyers. So, a bigger-than-usual soybean carryover should promote an even greater expansion of Brazilian soybean exports in 2001/02.

Foreign exchange rates are also affecting production incentives in Argentina. Because of weak exports, Argentina's government implemented a package of policy measures that alters the effective exchange rates for traders (see ***World Agriculture & Trade***, page 11). Although the effective depreciation in Argentina has been less acute than what Brazil has experienced with its floating exchange rate, agricultural commodity prices have increased.

Stronger prices would help Argentine soybean area edge higher but slightly lower forecast yields would flatten projected 2001/02 soybean output around 26 million tons. Yet, supplies from the last harvest are quite large. Argentine soybean crush and exports should increase to 18.6 million and 7.5 million tons, respectively. Solid growth in soybean meal exports, from 13.7 million to 14.5 million tons, would follow.

Tightening World Veg-Oil Market Enhances Soy-Oil Trade

Counter to soybean output, slowing output of the high-oil oilseeds will weaken gains in global vegetable oil output next year. World sunflowerseed production in 2001/02 is expected to decline slightly to 22.8 million tons, which would make it the smallest since 1993/94. A negligible

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increase in world rapeseed output in 2001/02 to 36.7 million tons is also expected to firm vegetable oil and oilseed prices.

Palm oil is the world's most traded vegetable oil and production trends often determine market direction for all oils. Last year, very low prices prompted Malaysia and Indonesia (the world's top palm oil producers and exporters) to try boosting prices by replanting older trees (thereby curtailing production) and encouraging greater domestic use. Based on slower area expansion and lower yields, world palm oil production in 2001/02 is projected up just 4 percent to 24.7 million tons. By comparison, palm oil output in 2000/01 grew an estimated 9 percent.

International trade in soybean oil is the most likely beneficiary from tighter supplies of competing oils, and is projected to rise 8 percent to 8.1 million tons in 2001/02. Price premiums for sunflowerseed and rapeseed oils over soybean oil have widened in the last year and should get even larger. Huge existing stocks of soybean oil will help the U.S. capture the majority of the trade expansion, although Argentine and Brazilian exports will also gain. Crop threats that develop in any of these countries could rally soybean oil prices well above levels seen the last 2 years.

Importer trade policies are likely to improve opportunities for soybean oil imports, also. India is the world's largest vegetable oil importer and fluctuations in its foreign trade have a great impact on market prices. In recent years, insufficient domestic vegetable oil production and robust consumption growth have created a vast import demand by India. Total Indian vegetable oil imports surged 29 percent last season. However, Indian imports are expected to moderate in 2001/02 because of better domestic oilseed harvests.

The Indian government has attempted to support oilseed prices for domestic farmers by raising tariffs on imported vegetable oils. However, India's import duty for soybean oil is currently at its World Trade Organization (WTO)-established maximum and all quantity barriers were eliminated in 1994. Soybean oil has now secured a price advantage in India over other vegetable oils that have much higher tariffs. If duties on these competing oils are not reduced, the preferential access should support another record volume of Indian soybean oil imports in 2001/02. India typically imports soybean oil between May and September, so Argentina and Brazil usually provide most of what India needs from their more recent harvests. While U.S. soybean oil exporters will get a small share of this trade, they should benefit competitively in other foreign markets as India siphons off more supplies from South America.

China trails only India in the quantity of vegetable oil imported. In the coming year, domestic production and imports of oilseeds will limit China's soybean oil imports. China's trade policies also favor imports of oilseeds over vegetable oils. However, the date of China's accession to the WTO (which may be as soon as late 2001/early 2002) could make a major difference to this outlook. In the first year of accession, the terms would expand access to China's domestic market for soybean oil by replacing absolute quotas with a tariff rate quota (TRQ) of up to 1.72 million tons. By comparison, minimal soybean oil quotas limited imports to just 80,000 tons in 2000/01. The within-quota duty would be lowered from 13 percent to 9 percent.

When China's TRQ is implemented, it could substantially increase soybean oil imports. China's domestic vegetable oil prices, which are about double world levels because of the quota, could fall sharply. The corresponding reduction in oilseed processing margins would stall the recent expansion in crushing and revive China's imports of soybean meal, as well. Yet, China has added quite a lot of modern oilseed crushing capacity in the last 2 years, so fewer oil imports may be needed than if the TRQ had been implemented earlier. Per capita consumption of vegetable oils in both China and India is well below levels of Western nations. Therefore, just as lower prices have inspired Indian consumption, liberalization of the Chinese market could substantially accelerate world vegetable oil demand. AO

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September Releases—USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

September

4 Dairy Products
Crop Progress (4 p.m.)
5 Weather - Crop Summary (12 noon)
Broiler Hatchery
Egg Products
7 Dairy Product Prices (8:30 a.m.)
Poultry Slaughter
Vegetables
10 Crop Progress (4 p.m.)
11 Weather - Crop Summary (12 noon)
12 Cotton Ginnings (8:30 a.m.)
Crop Production (8:30 a.m.)
Broilery Hatchery
13 Turkey Hatchery
14 Dairy Products Prices (8:30 a.m.)
Milkfat Prices (8:30 a.m.)
17 Milk Production
Crop Progress (4 p.m.)
18 Weather - Crop Summary (12 noon)
19 Broilery Hatchery
Hop Stocks
20 Citrus Fruits
Potatoes
21 Dairy Products Prices (8:30 a.m.)
Catfish Processing
Cattle on Feed
Chickens and Eggs
Cold Storage
Livestock Slaughter
24 Crop Progress (4 p.m.)
Monthly Agnews
25 Cotton Ginnings (8:30 a.m.)
Weather - Crop Summary (12 noon)
26 Broiler Hatchery
27 Agricultural Prices
Peanut Stocks and Processing
28 Dairy Products Prices (8:30 a.m.)
Grain Stocks (8:30 a.m.)
Milkfat Prices (8:30 a.m.)
Small Grains Summary (8:30 a.m.)
Quarterly Hogs and Pigs